



# North Strathclyde Community Justice Authority

2015/16 Annual audit  
report to Members and  
the Auditor General

28 October 2016

## Key contacts

Anne McGregor, Senior Audit Manager  
[amcgregor@audit-scotland.gov.uk](mailto:amcgregor@audit-scotland.gov.uk)

Andrew Kerr, Professional Trainee  
[akerr@audit-scotland.gov.uk](mailto:akerr@audit-scotland.gov.uk)

Audit Scotland  
4th floor (South Suite)  
8 Nelson Mandela Place  
Glasgow  
G2 1BT

Telephone: 0131 625 1500

Website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)

Audit Scotland is a statutory body which appoints external auditors to Scottish local government bodies ([www.audit-scotland.gov.uk/about/ac/](http://www.audit-scotland.gov.uk/about/ac/)). Audit Scotland is a statutory body which provides audit services to the Accounts Commission and the Auditor General ([www.audit-scotland.gov.uk/about/](http://www.audit-scotland.gov.uk/about/)).

The Auditor General for Scotland has appointed Anne McGregor as the external auditor of North Strathclyde Community Justice Authority (NSCJA) for the period 2011/12 to 2015/16.

This report has been prepared for the use of NSCJA and no responsibility to any member or officer in their individual capacity or any third party is accepted.

This report will be published on our website after it has been considered by the audit committee. The information in this report may be used by Audit Scotland in any reporting to the Scottish Parliament.

## Contents

Key messages .....	3
Introduction .....	4
Audit of the 2015/16 financial statements.....	5
Financial management and sustainability .....	8
Governance and transparency .....	11
Appendix I: Significant audit risks .....	14
Appendix II: Summary of North Strathclyde Community Justice Authority 2015/16 .....	16
Appendix III: Summary of Audit Scotland national reports 2015/16 ...	18
Appendix IV: Action plan .....	19

# Key messages

## Audit of financial statements

- Unqualified auditor's report on the 2015/16 financial statements.
- Services currently delivered by NSCJA will transfer to community planning partnerships on 1 April 2017. Under the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, transfers of services under combinations of public sector bodies (such as local government reorganisation) do not negate the presumption of going concern.

## Financial management and sustainability

- NSCJA incurred an accounting deficit of £0.033m. The deficit was due to pension accounting adjustments at the year-end.
- NSCJA operated within its administration grant of £0.255m.
- The spend on community justice by authorities was £0.183m (2%) greater than the grant distributed of £10.190m. The excess is funded by the individual authorities.

## Governance and transparency

- Overall satisfactory internal control arrangements except that for the past four years at least one meeting of NSCJA has been inquorate and had to be rescheduled, most recently the meeting in September 2016. The Chief Officer and Convener have reinforced with members the need to attend the remaining meetings.

## Outlook

- CJAs will cease to exist on March 2017 following a proposed shadow year when CPPs will take on duties. Under its Transition Plan, NSCJA is engaging with other CJAs and the Scottish Government in planning for a smooth transfer of duties. In the meantime it is working to, and regularly reporting on, its 2016-17 action plan.
- A resilience plan is in place to ensure NSCJA can continue to discharge its full duties throughout the final year.

# Introduction

1. This report is a summary of our findings arising from the 2015/16 audit of North Strathclyde Community Justice Authority (NSCJA). The report is divided into sections which reflect our public sector audit model.
2. The Chief Officer, as accountable officer, of NSCJA is responsible for:
  - preparing financial statements which give a true and fair view
  - implementing appropriate internal control systems
  - putting in place proper arrangements for the conduct of its affairs
  - ensuring that the financial position is soundly based.
3. Our responsibility, as the external auditor of NSCJA, is to undertake our audit in accordance with International Standards on Auditing, the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011 and the ethical standards issued by the Auditing Practices Board.
4. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements; this does not relieve management of their responsibility for the preparation of financial statements which give a true and fair view.
5. A number of reports, both local and national, have been issued by Audit Scotland during the course of the year. These reports, summarised at appendices II and III, include recommendations for improvements.
6. Appendix IV is an action plan setting out our recommendations to address the high level risks we have identified during the course of the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "Management action/response". We recognise that not all risks can be eliminated or even minimised. What is important is that NSCJA understands its risks and has arrangements in place to manage these risks. They should ensure that they are satisfied with proposed action and have a mechanism in place to assess progress and monitor outcomes.
7. We have included in this report only those matters that have come to our attention as a result of our normal audit procedures; consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.
8. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.
9. 2015/16 is the final year of the current five-year audit appointment. For 2016/17, there will be a new Audit Scotland team. In accordance with agreed protocols and International Standards on Auditing we have been liaising with the incoming auditors as part of this transition.

# Audit of the 2015/16 financial statements

<b>Audit opinion</b>	<ul style="list-style-type: none"> <li>We have completed our audit and issued an unqualified independent auditor's report.</li> </ul>
<b>Going concern</b>	<ul style="list-style-type: none"> <li>The financial statements were prepared on the going concern basis. Services currently delivered by NSCJA will transfer to community planning partnerships on 1 April 2017. Under the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, transfers of services under combinations of public sector bodies (such as local government reorganisation) do not negate the presumption of going concern.</li> </ul>
<b>Other information</b>	<ul style="list-style-type: none"> <li>We review and report on other information published with the financial statements, including the management commentary, statement on the system of internal financial control and the remuneration report. There were minor disclosure changes made to these statements as a result of the audit.</li> </ul>

## Submission of financial statements for audit

- We received the unaudited financial statements on 30 June 2016, in accordance with the agreed timetable. The working papers were of a high standard and staff provided good support to the audit team.

## Overview of the scope of the audit of the financial statements

- Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in our Annual Audit Plan provided to management in February 2016.
- As part of the requirement to provide full and fair disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2015/16 agreed fee for the audit was set out in the Annual Audit Plan and, as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.
- The concept of audit risk is of central importance to our audit approach. During the planning stage of our audit we identified a number of key audit risks which involved the highest level of judgement and impact on the financial statements and consequently had the greatest effect on the audit strategy, resources and effort.

We set out in our Annual Audit Plan the audit work we proposed to undertake to secure appropriate levels of assurance. Appendix I sets out the significant audit risks identified during the course of the audit and how we addressed each risk in arriving at our opinion on the financial statements.

14. Our audit involved obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

## Materiality

15. Materiality can be defined as the maximum amount by which auditors believe the financial statements could be misstated and still not be expected to affect the decisions of users of financial statements. A misstatement or omission, which would not normally be regarded as material by amount, may be important for other reasons (for example, an item contrary to law).
16. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.
17. We summarised our approach to materiality in our Annual Audit Plan. Based on our knowledge and understanding of NSCJA we set our planning materiality for 2015/16 at £105,000 (1% of gross expenditure). We report all misstatements greater than £1,000.

Performance materiality was calculated at £79,000 to reduce to an acceptable level the probability of uncorrected and undetected audit differences exceeding our planning materiality level.

18. On receipt of the financial statements we reviewed our materiality levels. The materiality figures remained unchanged from those set during our planning work.

## Evaluation of misstatements

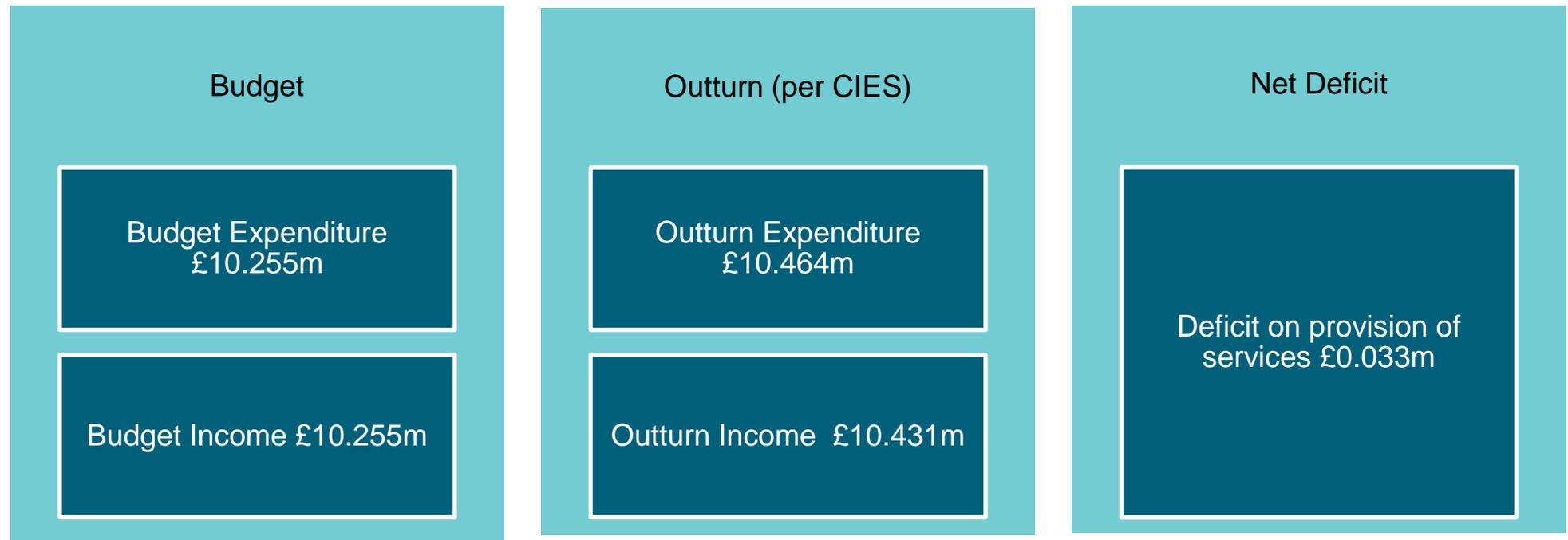
19. A number of presentational adjustments were identified within the financial statements during the course of our audit. These were discussed with relevant officers who agreed to amend the unaudited financial statements. There were no monetary errors impacting on the Comprehensive Income and Expenditure Statement.

## Significant findings from the audit

20. International Standard on Auditing 260 requires us to communicate to you significant findings from the audit, including:
  - The auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures.
  - Significant difficulties encountered during the audit.
  - Significant matters arising from the audit that were discussed, or subject to correspondence with management.
  - Written representations requested by the auditor.

- Other matters which in the auditor's professional judgment, are significant to the oversight of the financial reporting process.
21. There are no issues, other than those reported elsewhere in the report that require to be communicated to those charged with governance in accordance with ISA 260.

# Financial management and sustainability



## Financial management

22. NSCJA sets an annual budget to meet its commitments for the forthcoming financial year. Regular monitoring of expenditure and income against agreed budgets is central to effective financial management.

## Financial outcomes

23. In 2015/16 NSCJA incurred an accounting deficit on the provision of services of £0.033m (2014/15 £0.018m) as shown in the Comprehensive Income and Expenditure Statement Statement (CIES). This is based on income of £10.431m less cost of services expenditure of £10.457m and pension interest cost of £0.007m. The smaller deficit position as presented in the management

commentary is different because it excludes pension adjustments and takes into consideration the payment of an outstanding credit balance (£0.001m) to the Scottish Government. As the budget is prepared and monitored against in this way, it is appropriate for the management commentary details to be presented as such.

24. In the CIES, cost of services marginally decreased by 0.7% from £10.535m (2014/15) to £10.457m (2015/16). The main movements were the decrease in the main s27 grant payments from £10.118m to £10.001m and an increase in admin grant for maternity cover.
25. As shown in note 12 to the accounts the total value of grants distributed was £10.190m. The total spend on Section 27 expenditure was £10.373m and the difference of £0.183m is funded by the constituent local authorities.

### Financial management arrangements

26. As auditors, we need to consider whether audited bodies have established adequate financial management arrangements. We do this by considering a number of factors, including whether:
  - financial regulations are comprehensive, current and promoted within NSCJA
  - reports monitoring performance against budgets are accurate and provided regularly to budget holders
  - monitoring reports do not just contain financial data but are linked to information about performance.

27. Quarterly revenue budget monitoring reports were provided to NSCJA meetings and included a forecast outturn for the year. Overspends of approximately £0.2m were projected during the year, and the final overspend was £0.183m.
28. The service level agreement (SLA) between the NSCJA and Renfrewshire Council ended on 31 March 2016. There is currently no formal agreement in place for 2016/17. However, we have been informed by the Chief Officer of the NSCJA, that an informal agreement is in place to continue the SLA under the 2015/16 terms and conditions for 2016/17.

### Appendix IV – Action Plan No. 1

## Conclusion on financial management

29. We have concluded that the NSCJA's financial management arrangements are satisfactory.

## Financial sustainability

30. Financial sustainability means that NSCJA has the capacity to meet its current and future plans. Due to the changes for all community justice authorities we are concerned with whether spending is being balanced with income in the period to reorganisation.

## Pension liability

31. The net liability on the NSCJA's balance sheet has decreased from £0.225m in 2014/15 to £0.156m in 2015/16, an improvement of £0.069m. The principal reason for this decrease is the pension

---

liability has fallen from £1.207m to £1.193m. This movement is driven by changes in the pension actuary's assumptions, mainly the result of a reduction in pension liabilities linked to an increase in the real discount rate.

- 32. The pension liability represents the difference between expected future pension payments and the underlying value of pension fund assets available to meet this cost.
- 33. A material net liability can highlight a potential going concern issue however, we recognise that the appointed actuary is of the view that the asset holdings and contributions from employees and employers together with increases in contributions provide security over future liabilities. In light of these factors, it is reasonable that the accounts are prepared on a going concern basis.
- 34. The Scottish Government has given an undertaking to meet all costs in relation to the abolition of CJAs including pension scheme deficits.

### Financial planning

- 35. In March 2016, the Scottish Government confirmed to NSCJA that section 27 funding for 2016/17 would be £9.863m; a decrease of £0.137m (1%) from the previous year. The 2016/17 Quarter 1 monitoring report shows that an overspend of £0.129m is forecast due to overspends at Argyll, Bute and Dunbartonshire. As previously noted the section 27 overspends are borne by the individual authorities.

- 36. For the admin grant a break-even position is forecast against a budget of £0.227m.
- 37. The terms and conditions of severance for staff have still to be finalised but the Scottish Government has given an undertaking that it will fund all costs in relation to abolishing CJAs, including severance costs, so final decisions on costs will not impact the admin grant.

### Conclusion on financial sustainability

- 38. 2016/17 is the final year of NSCJA and it is managing its cost base within administrative grant.

# Governance and transparency



- 39. Members and management of NSCJA are responsible for establishing arrangements to ensure that its business is conducted in accordance with the law and proper standards, that public money is safeguarded and for monitoring the adequacy and effectiveness of these arrangements.
- 40. Citizens should be able to hold audited bodies to account about the services provided. Transparency means that citizens have access to understandable, relevant and timely information about how an audited body is taking decisions and how it is using its resources.

## NSCJA meetings

- 41. Over the past two years we have reported instances where some meetings had not been quorate.
- 42. For 2016 the meetings planned for March and June were held as planned but the September 2016 meeting was again inquorate. Meetings are scheduled for December 2016 and March 2017 and members should attend these meetings to ensure the smooth transition of services and support staff in the final year, including approving final severance settlement.

### Appendix IV – Action Plan No. 2

## Internal control

- 43. While auditors concentrate on significant systems and key controls in support of the opinion on the financial statements, their wider responsibilities require them to consider the financial systems and controls of audited bodies as a whole. However, the extent of this work should also be informed by their assessment of risk and the activities of internal audit.
- 44. With Renfrewshire Council being the host for NSCJA, all financial transactions of NSCJA are processed through the financial systems of the council and are subject to the same controls and scrutiny of the council including regular reviews of internal audit.
- 45. In the 2015/16 Internal Audit Annual Report on NSCJA, the Chief Auditor concluded that satisfactory assurances can be placed upon the system of internal control is operating in a satisfactory manner.

## Internal audit

46. Internal audit provides management of NSCJA with independent assurance on risk management, internal control and corporate governance arrangements. We are required by international auditing standards to make an assessment of internal audit to determine the extent to which we can place reliance on its work. To avoid duplication, we place reliance on internal audit work where possible.
47. Our review of internal audit concluded that they operate in accordance with the Public Sector Internal Audit Standards and have sound documentation standards and reporting procedures in place. We reviewed the overall findings in the annual report, noting overall satisfactory assurance and reasonable assurance on governance arrangements. Internal audit noted that NSCJA governance arrangements were operating well, however there have been instances of inquorate meetings.

## Arrangements for the prevention and detection of fraud

48. In our Annual Audit Plan we highlighted the responsibility audited bodies have for establishing arrangements to prevent and detect fraud and other irregularities, although it should be noted that no system can eliminate the risk of fraud entirely. In our opinion the overall arrangements for the prevention of fraud within NSCJA are satisfactory.

## Arrangements for maintaining standards of conduct and the prevention and detection of corruption

49. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial instructions. We have no issues to report and note that NSCJA has in place codes of conduct for employees and members. A standing item exists on agenda of NSCJA meetings where members are asked to declare any interests.

## Transparency

50. When assessing transparency we consider questions such as:
  - Are meetings are held in public?
  - Are papers and corporate documents available online and there is only limited use of taking papers in private?
  - Are financial statements clearly presented and budget monitoring papers concise and clear?
  - Is a register of interests available on the website?
51. Meetings of NSCJA are held in public and papers are available from the Renfrewshire Council website. The NSCJA website also publishes the NSCJA's Area Plan. We concluded that the financial statements are clear and actual expenditure and income clearly linked to budgeted figures, as described in the commentary.

## Area Plan

52. The work of NSCJA is underpinned by the 2014-2017 Area Plan which covers the three year period from April 2014 – March 2017. NSCJA continue to work to this Area Plan against a backdrop of the current redesigning of community justice services.

## Overview of performance targets 2015/16

53. Progress reports of the annual action plan are presented at each meeting of NSCJA. The final progress report for the 2015/16 action plan was presented at the March 2016 NSCJA meeting. The action plan aligns the aims and objectives stated in the 2014-17 Area Plan.
54. Of the 19 activities outlined in the plan, 18 had been achieved within timescale. The one activity that was not achieved within timescale was influenced by external factors outwith the control of the NSCJA.
55. The activities have been revised, and reduced to 16 points for the final year of NSCJA.

## Redesigning the community justice system

56. As previously noted in our 2014/15 annual audit report and in our 2015/16 annual audit plan, the existing community justice authorities will be disestablished on 31 March 2017. Services are being transferred to community planning partnerships and a new national body Community Justice Scotland will be created.

## Outlook

57. Any period of change, alongside pressures on finances, increases the risk of current staff not engaging in the transition process. The Chief Officer provides regular progress updates to members and through the CJA Conveners' Group.
58. The Chief Officer chairs the CJA finance officers group which is planning for the final year of CJAs. NSCJA has been part of the CJA Disestablishment Group and CPP Transitions group which have been put in place to ensure that knowledge is transferred as well as to support practical arrangements.
59. At the request of Scottish Government, officers at the eight community justice authorities were asked to create resilience plans to ensure they can continue to discharge their full duties throughout the final year. The NSCJA plan was taken to members in June 2016 along with the joint risk register for the transition year.

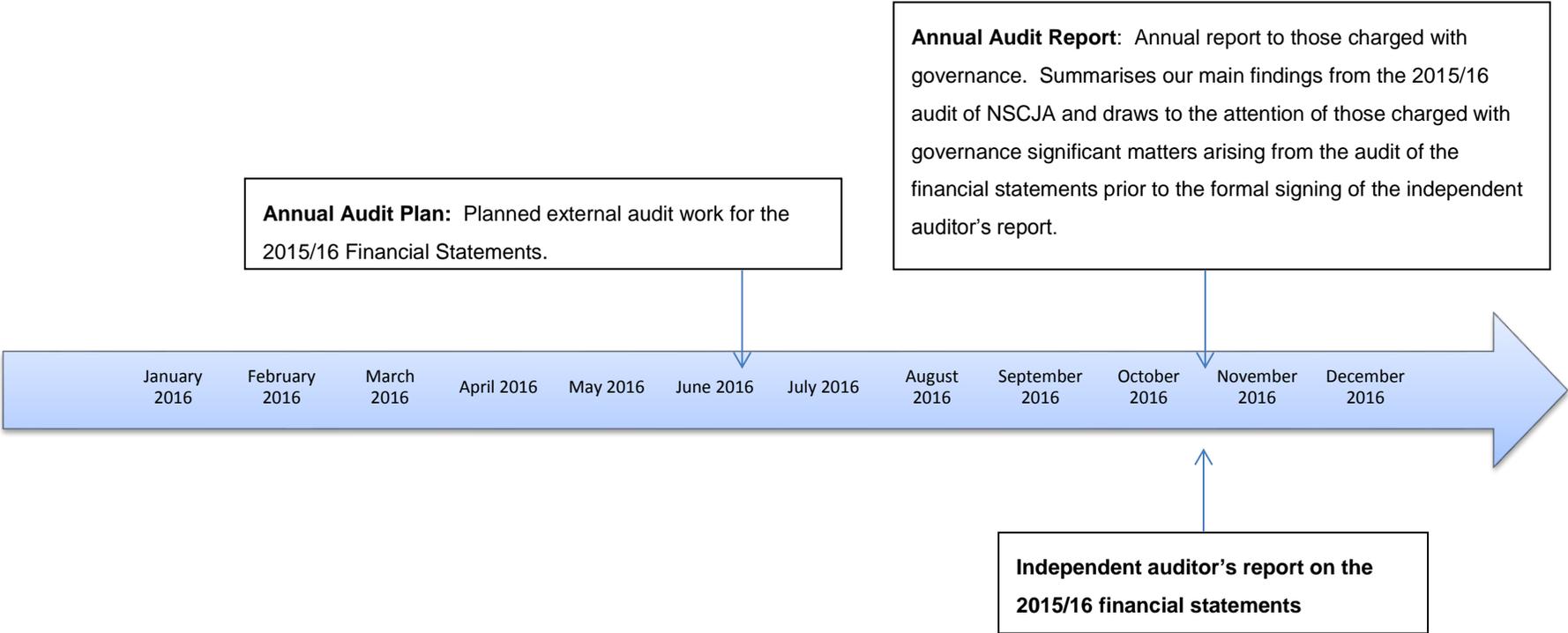
# Appendix I: Significant audit risks

The table below sets out the financial statement audit risks we identified during the course of the audit and how we addressed each risk in arriving at our opinion on the financial statements.

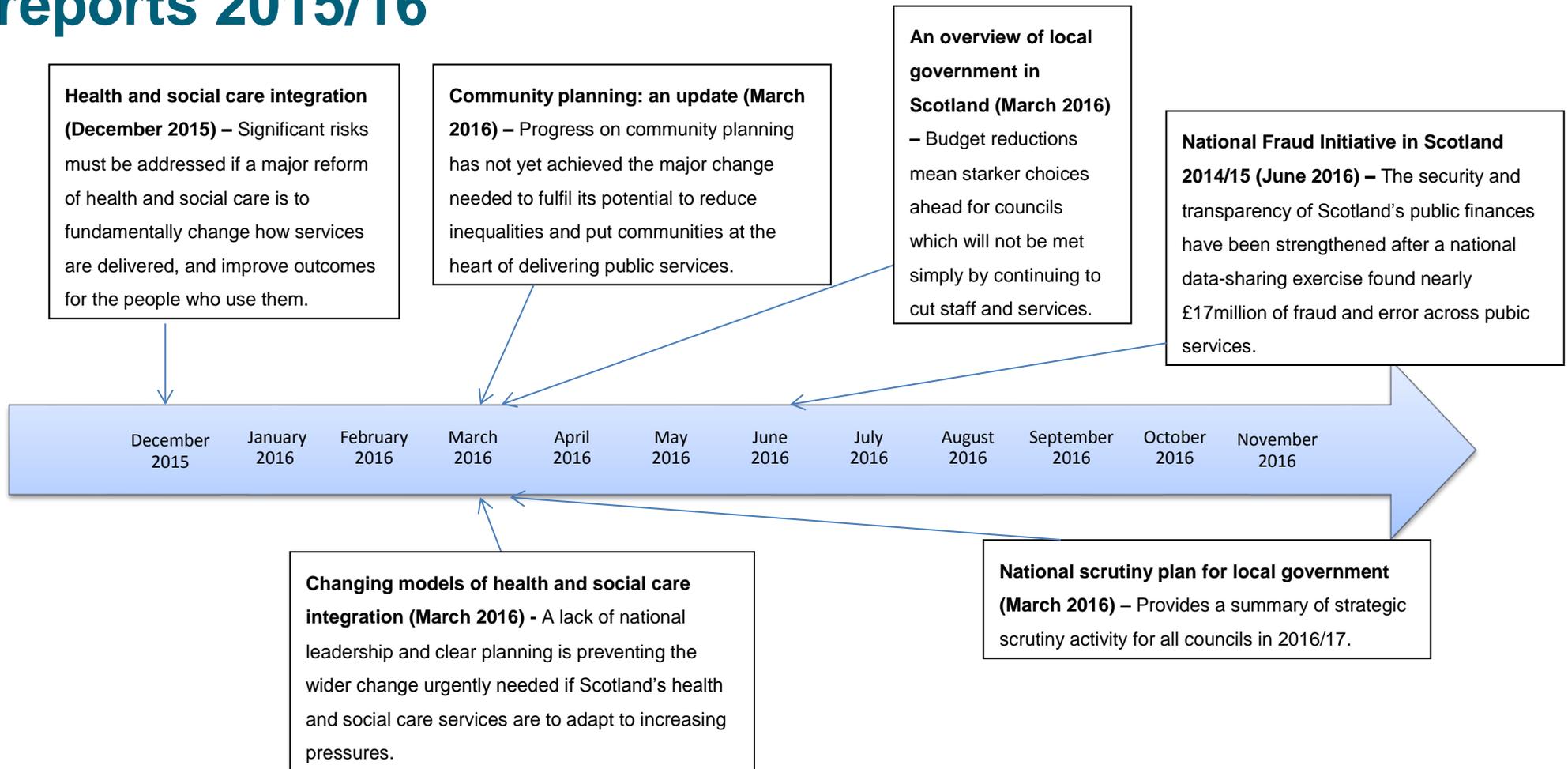
Audit Risk	Assurance procedure	Results and conclusions
<b>Risk of material misstatement</b>		
<p><b>Risk of management override of control</b></p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit.</p> <p><b>Risk</b></p> <p>Management's ability to manipulate accounting records and prepare fraudulent or biased financial statements by overriding controls that otherwise appear to be operating effectively.</p>	<ul style="list-style-type: none"> <li>• Detailed testing of journal entries</li> <li>• Review of accounting estimates</li> <li>• Evaluating significant transactions that are outside the normal course of business</li> <li>• Focused testing of accruals and prepayments</li> </ul>	<p>We sampled tested journal entries, reviewed accounting entries over the year-end for bias. No issues found.</p>
<b>Risks identified from the auditor's wider responsibility under the Code of Audit Practice</b>		
<p><b>Community justice re-design</b></p> <p>CJAs will cease to exist on March 2017 following a transition year when CPPs will take on duties. Current staff are assisting CPPs and Scottish Government to ensure sharing of knowledge and expertise. There is a risk that</p>	<ul style="list-style-type: none"> <li>• Review the 2015/16 update on progress of objectives of area plan and comment on progress in annual report on the audit.</li> <li>• Review financial outturn versus budget and investigate significant or unusual</li> </ul>	<p>The Chief Officer chairs the CJA finance officers group which is planning for the final year of CJAs. NSCJA has been part of the CJA Disestablishment Group and CPP Transitions group which have been put in place to ensure that knowledge is transferred as well as to support practical</p>

Audit Risk	Assurance procedure	Results and conclusions
NSCJA may not be fully focused on achieving its objectives.	<p>differences.</p> <ul style="list-style-type: none"> <li>• Review updates on progress on transition to NSCJA and consider level of preparedness for comment in annual report on the audit.</li> <li>• Enquire and investigate about dilapidation costs on lease</li> </ul>	arrangements. NSCJA officers are working with IT, Finance and Corporate Services departments in Renfrewshire Council to ensure a smooth closure of NSCJA.

# Appendix II: Summary of North Strathclyde Community Justice Authority 2015/16



# Appendix III: Summary of Audit Scotland national reports 2015/16



## Appendix IV: Action plan

No.	Paragraph ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
1.	28	<p><b>Service level agreement</b></p> <p>The service level agreement between NSCJA and Renfrewshire Council ended on 31 March 2016. There is currently no formal agreement in place for 2016/17.</p> <p><b>Risk</b></p> <p>There is a risk that NSCJA incur additional costs, which are not included in the budget, due to the extra support received from Renfrewshire Council in winding up NSCJA and transferring services to CPP.</p> <p><b>Recommendation</b></p> <p>NSCJA formally records that the conditions and terms of the service level agreement extend into 2016/17.</p>	<p>An informal agreement is currently in place to continue the SLA under the 2015/16 terms and conditions for 2016/17.</p> <p>We will minute that the agreement is extended into 2016/17.</p>	<p>Chief officer Treasurer</p> <p>30 November 2016</p>

No.	Paragraph ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
2.	42	<p><b>Inquorate meetings</b></p> <p>Meetings scheduled for September 2015 and September 2016 were inquorate.</p> <p><b>Risk</b></p> <p>If meetings begin to be routinely rescheduled, particularly during a period of change, there is a risk that progress in the final year is not monitored effectively and members and officers cannot address issues raised in a timely manner, or judgements and decisions are delayed e.g. on the final severance settlement.</p> <p><b>Recommendation</b></p> <p>Chief Officer and convener should remind members of the importance of attending all remaining meetings.</p>	<p>Meetings are scheduled for December 2016 and March 2017. The Convener and Chief Officer have written to members about the importance of attending meetings and the clerk has also met with members to stress the importance of attending the remaining meetings.</p>	<p>Chief Officer Convener</p>